



MEMORANDUM

November 15, 2007

To: RGGI State Working Group
From: Derek K. Murrow, Director, Policy Analysis
Alice E. Liddell, Policy Analyst
RE: RGGI Auction Report Comments

Rockport, ME
Portland, ME
Boston, MA
Providence, RI
Hartford, CT

Environment Northeast is a nonprofit research & advocacy organization focusing on the Northeastern U.S. and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the region's environmental and economic sustainability.

Environment Northeast is part of the 24 member Stakeholder Group which was selected by the Regional Greenhouse Gas Initiative (RGGI) states to represent electric generator, environmental, consumer, and other affected interests in the Northeast and Mid-Atlantic regions. We are very supportive of RGGI and thank you for the opportunity to comment on the RGGI auction report.

Overall we think the RGGI auction report is very well done. The authors have thoroughly analyzed different auction designs and come up with a good suite of recommendations. We have the following comments on the report, *Auction Design for Selling CO2 Allowances under the Regional Greenhouse Gas Initiative*, as well as suggestions for state policy makers as they move forward with the design and implementation of the auction.

General Comments

- The report and research team's methods seem to be extremely thorough and we appreciate their work in developing what will be the largest auction of carbon allowances to date; this is an extremely important effort and design process.
- Based on the author's analysis we support the general auction design suggested: sealed-bid, uniform price, quarterly auction, etc.

Auction Reserve Price

- A reserve price is a very common element of auction design and we support inclusion of this mechanism in the auction
- The reserve price accomplishes three essential goals: 1) it ensures that the states do not give away a commodity below its value to society (the program goal is to deliver a reduction in emissions which requires the allowances to have a price), 2) it guards against collusive behavior, and 3) it gives developers of new technologies a higher level of certainty as to the value of carbon, reducing their development risks.
- The reserve price should be set at a level that reflects the low-end of societies willingness to pay for carbon emissions reductions, which we believe should be at least \$3/ton CO₂ and as the market develops the reserve price should transition to being about 80% of the current spot market price or the \$3/ton limit, whichever is higher.

- Allowances not sold through the reserve price mechanism should be removed from the market and we would suggest two options for this:
 - Preferred Option: allowances should be permanently retired, as a low allowance price is an indicator that the cap level has been set too high (Note: we are quite concerned that the cap level has been set too high).
 - Second Option: allowances should be withheld from the market in a contingency account and released only if the price in the previous quarterly auction exceeds \$20/ton CO₂.
- Any price based mechanism should be indexed to inflation plus have an additional percentage increase to reflect our willingness to pay more for carbon mitigation over time.

Joint and Uniform Auctions

- We believe that all of the states should work together to participate in the regional auction – different auctions and designs would significantly confuse market participants and could increase opportunities for collusive behavior.
- If states are slow in getting their rules finalized, they can participate in the first auction available and do not need to slow the auctioning of allowances for other states.

Market Monitoring

- The RGGI states should commit to hire an independent market monitor(s) to work with existing agencies and organizations to identify anyone that appears to be exercising market power or colluding.
- Market monitoring activities can and should build on existing roles as discussed in the report.

Access to Emissions Information

- An essential element of the new market being created, which compliments the auction and pricing of allowances, is the level of emissions from the regulated power plants in the region.
- We are aware that the states are in the process of compiling emissions data for 2005 and 2006, and we encourage this to happen quickly to reduce uncertainty about this new market.
- Going forward, there should be a public commitment by the states to compile and release emissions data on a regular and frequent schedule (i.e. quarterly within a few months of the end of the quarter).

Thank you for reviewing our comments on the report, and feel free to contact us with comments or questions.



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